

**MT. PLEASANT MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF
MT. PLEASANT, IOWA**

Independent Auditors' Reports
Financial Statements

Supplemental Information

Schedule of Findings

June 30, 2004

MT. PLEASANT MUNICIPAL UTILITIES A COMPONENT UNIT OF THE CITY OF MT. PLEASANT, IOWA

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MT. PLEASANT MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF
MT. PLEASANT, IOWA

Board of Trustees and Officials
June 30, 2004

<u>Name</u>	<u>Title</u>	<u>Term Expiration</u>
David Carrick	Chairman of the Board	October, 2009
Richey Dickson	Board Member	October, 2007
Dan McCabe	Board Member	October, 2005
Bobby Stull	Board Member	October, 2007
Harvey Ungerman	Board Member	October, 2005
Lori A. Glanzman	General Manager	
Randall Neff	Treasurer/Business Manager	
David McCoid	Attorney	

Independent Auditors' Report

To the Board of Trustees
Mt. Pleasant Municipal Utilities
Mt. Pleasant, Iowa

We have audited the accompanying combining Statement of Net Assets of the Mt. Pleasant Municipal Utilities – a component unit of the City of Mt. Pleasant, Iowa, as of and for the year ended June 30, 2004, and the related Combining Statement of Revenue, Expenses and Changes in Net Assets, and Combining Statement of Cash Flows. These financial statements are the responsibility of the Utilities' management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As explained in Note 2 of the Notes to Financial Statements, property and equipment acquired prior to November 1, 1973 is accounted for and is being depreciated for periods since that date on appraisal values representing fair value as of that date. No depreciation has been recognized for periods prior to November 1, 1973. As explained in Note 3 of the Notes to Financial Statements, balances represented by contributed capital, retained earnings and appraisal increase is accounted for in total rather than being separated into its component parts. These practices, the effect of which is not determinable because municipal property and equipment cost records and equity records are not available, are not in accordance with accounting principles generally accepted in the United States of America.

As discussed in Note 21 of the Notes to Financial Statements, for the year ended June 30, 2004, the Mt. Pleasant Municipal Utilities adopted Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments; Statement No. 37, Basic Financial Statements - and Management's Discussion and Analysis – for State and Local Governments: Omnibus; Statement No. 38, Certain Financial Statement Note Disclosures; Statement No. 41, Budgetary Comparison Schedule – Perspective Difference; and Interpretation No. 6, Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements.

In our opinion, except for the effects of appraisal values of equipment and net assets breakdown as discussed in the third paragraph of this report, the financial statements referred to above present fairly, in all material respects, the financial position of Mt. Pleasant Municipal Utilities – a component unit of the City of Mt. Pleasant, Iowa, as of June 30, 2004, and the changes in financial position and its cash flow for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued a report dated August 20, 2004, on our consideration of the Mt. Pleasant Municipal Utilities' – a component unit of the City of Mt. Pleasant, Iowa, internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. This report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis and budgetary comparison information in pages 4 through 8 and 26 through 28 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of supplementary information. We did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming an opinion on the aforementioned financial statements taken as a whole. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2003 (none of which are present herein) and expressed unqualified opinions on those financial statements. The supplemental information included in pages 26 through 28 is presented for purposes of additional analysis and is not a required part of the financial statements and has not been subjected to auditing procedures. The supplemental information included in pages 29 through 39 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in our audit of the aforementioned financial statements and, in our opinion, is fairly stated in all material respects in relation to the aforementioned financial statements taken as a whole.

Theobald, Donohue & Thompson, P.C.

Mt. Pleasant, Iowa
August 20, 2004

MANAGEMENT'S DISCUSSION AND ANALYSIS

Management of Mt. Pleasant Utilities provides this Management's Discussion and Analysis of its annual financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2004. We encourage readers to consider this information in conjunction with the Utilities' financial statements, which follow.

Because Mt. Pleasant Utilities is implementing new reporting standards for this fiscal year, with changes in content and structure, certain information may not be easily comparable to prior years. However, in future years, comparisons will be more meaningful and will go further in explaining Mt. Pleasant Utilities' financial position and results of operations.

FINANCIAL HIGHLIGHTS

- Revenues of the Utilities' activities increased 7.4%, or approximately \$493,500, from 2003 to 2004.
- Operating expenses increased 15.4%, or approximately \$946,500, in fiscal 2004 from fiscal 2003.
- Mt. Pleasant Utilities' net assets decreased 3.2%, or approximately \$513,000, from June 30, 2003 to June 30, 2004.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the government's financial activities.

The Financial Statements consist of a Statement of Net Assets a Statement of Revenues, Expenses and Changes in Net Assets and a Statement of Cash Flows. These provide information about the activities of Mt. Pleasant Utilities as a whole and present an overall view of the Utilities' finances.

The Financial Statements tell how enterprise services were financed in the short term as well as what remains for future spending.

Notes to Financial Statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the Utilities' budget for the year.

REPORTING THE UTILITIES' FINANCIAL ACTIVITIES

The Statement of Net Assets and the Statement of Revenues, Expenses and Changes in Net Assets

One of the most important questions asked about the Utilities' finances is, "Is Mt. Pleasant Utilities as a whole better off or worse off as a result of the year's activities?" The Statement of Net Assets and the Statement of Activities report information about the Utilities as a whole and about its activities in a way that helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting and the economic resources measurement focus, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

The Statement of Net Assets presents all of the Utilities' assets and liabilities, with the difference between the two reported as "net assets." Over time, increases or decreases in the Utilities' net assets may serve as a useful indicator of whether the financial position of Mt. Pleasant Utilities is improving or deteriorating.

The Statement of Revenues, Expenses and Changes in Net Assets presents information showing how the Utilities' net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the event or change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will not result in cash flows until future fiscal periods.

The Statement of Net Assets and the Statement of Revenues, Expenses and Changes in Net Assets report one kind of activity:

- Business type activities, which include the water and the electric departments. These activities are financed primarily by user charge.

Fund Financial Statements

The required financial statements of the proprietary funds include a statement of net assets, a statement of revenues, expenses, and changes in fund net assets and a statement of cash flows.

FINANCIAL ANALYSIS

As noted earlier, net assets may serve over time as a useful indicator of financial position. The analysis below focuses on the net assets and changes in net assets for business type activities.

Net Assets June 30, 2004

Current and other assets	\$	4,591,022
Capital assets		<u>22,075,546</u>
Total assets	\$	<u>26,666,568</u>
Long-term liabilities	\$	10,262,001
Other liabilities		<u>1,064,796</u>
Total liabilities	\$	<u>11,326,797</u>
Net assets:		
Restricted	\$	2,105,031
Unrestricted		<u>13,234,740</u>
Total net assets	\$	<u>15,339,771</u>

Net assets of business type activities decreased from fiscal year 2003 by approximately \$513,000, or 3.0%. The largest portion of the Utilities' net assets is the Invested in Capital Assets (e.g., land, infrastructure, buildings, and equipment), less the related debt. The debt related to the investment in capital assets is liquidated with sources other than capital assets. Restricted net assets represent resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. Unrestricted net assets—the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements, is approximately \$757,000 at the end of this year.

**Changes in Net Assets
Year Ended June 30, 2004**

Revenues:

Operating revenues:		
Charges for service and sales	\$	6,630,218
Non-operating revenues:		
Investment earnings		54,121
Other non-operating revenue		1,040
Total revenues		<u>6,685,379</u>

Operating expenses:

Power, pumping and treatment plant		4,014,636
Transmission and distribution		1,636,374
General and administration		977,193

Non-operating expenses:

Interest expense		473,922
Other non-operating expense		3,464
Total expenses		<u>7,105,589</u>

Prior period adjustment		(5,113)
Permanent transfer to City of Mt. Pleasant		(87,500)
Decrease in net assets		<u>(512,823)</u>

Net assets beginning of year		15,852,594
Net assets end of year	\$	<u>15,339,771</u>

INDIVIDUAL MAJOR FUND ANALYSIS

- The Water Fund, which accounts for the operation and maintenance of the Utilities' water system, ended fiscal 2004 with a \$5,950,330 net asset balance compared to the prior year ending net asset balance of \$6,149,041.
- The Electric Fund, which accounts for the operation and maintenance of the Utilities' electric system, ended fiscal 2004 with a \$9,389,441 net asset balance compared to the prior year ending net asset balance of \$9,703,553.

BUDGETARY HIGHLIGHTS

Over the course of the year, Mt. Pleasant Utilities amended its budget twice. The amendments were done in May and June of 2004. The amendments were needed to cover unplanned disbursements.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The Utilities' capital assets include land, buildings and improvements, and equipment. Capital assets for business type activities totaled \$22,075,546 (net of accumulated depreciation) at June 30, 2004. See Note 2 to the financial statements for more information about the Utilities' capital assets.

Construction in progress at June 30, 2004 for electric and water activities consists primarily of new construction in the Mt. Pleasant area.

Debt

At June 30, 2004, long-term debt outstanding for business type activities was \$10,431,358. Debt decreased as a result of payment of revenue notes.

Additional information about the Utilities' long-term debt is presented in Note 17 to the financial statements.

ECONOMIC FACTORS BEARING ON THE UTILITIES' FUTURE

Several economic factors affected decisions made by the Utilities in setting its fiscal 2005 budget.

CONTACTING THE UTILITIES' FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of Mt. Pleasant Utilities' finances and operating activities. If you have questions about this report or need additional financial information, contact the General Manager, 509 N. Adams, Mt. Pleasant, Iowa.

MT. PLEASANT MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF MT. PLEASANT, IOWA

Combining Statement of Net Assets
June 30, 2004

	<u>Assets</u>		
	<u>Light</u>	<u>Water</u>	<u>Total</u>
Current assets:			
Cash	\$ 495,339	(388,925)	106,414
Certificates of deposit	350,872	300,076	650,948
Receivables:			
Customer	345,871	101,591	447,462
Unbilled usage	319,545	85,139	404,684
Due from water account	102,841	-	102,841
Material and supplies inventory	294,775	97,210	391,985
Prepaid expenses	73,658	63,789	137,447
Total current assets	<u>1,982,901</u>	<u>258,880</u>	<u>2,241,781</u>
Restricted assets:			
Cash	520,525	598,314	1,118,839
Certificates of deposit	347,576	300,076	647,652
Other investments	582,750	-	582,750
Total restricted assets	<u>1,450,851</u>	<u>898,390</u>	<u>2,349,241</u>
Total current and restricted assets	<u>3,433,752</u>	<u>1,157,270</u>	<u>4,591,022</u>
Property and equipment:			
Acquired prior to November 1, 1973, at appraised value	3,099,450	1,584,695	4,684,145
Less: depreciation accumulated since November 1, 1973, computed by the straight-line method	<u>3,099,450</u>	<u>1,370,887</u>	<u>4,470,337</u>
	<u>-</u>	<u>213,808</u>	<u>213,808</u>
Acquired since November 1, 1973, at cost	19,366,803	14,034,512	33,401,315
Less: accumulated depreciation, computed by the straight-line method	<u>7,315,176</u>	<u>4,224,401</u>	<u>11,539,577</u>
	<u>12,051,627</u>	<u>9,810,111</u>	<u>21,861,738</u>
Total property and equipment	<u>12,051,627</u>	<u>10,023,919</u>	<u>22,075,546</u>
Total assets	\$ <u>15,485,379</u>	<u>11,181,189</u>	<u>26,666,568</u>

See accompanying notes to financial statements.

Liabilities and Net Assets

	<u>Light</u>	<u>Water</u>	<u>Total</u>
Current liabilities, payable from			
Current assets:			
Accounts payable and accrued expenses	\$ 585,674	45,181	630,855
Lease payable	-	15,976	15,976
Due to light account	-	102,841	102,841
Total current liabilities, payable from current assets	<u>585,674</u>	<u>163,998</u>	<u>749,672</u>
Long-term liabilities:			
Notes payable	<u>5,326,025</u>	<u>4,920,000</u>	<u>10,246,025</u>
Total long-term liabilities	<u>5,326,025</u>	<u>4,920,000</u>	<u>10,246,025</u>
Current liabilities, payable from			
Restricted assets:			
Customer deposits	86,890	-	86,890
Accrued interest	44,016	14,861	58,877
Notes payable	<u>53,333</u>	<u>132,000</u>	<u>185,333</u>
Total current liabilities, payable from restricted assets	<u>184,239</u>	<u>146,861</u>	<u>331,100</u>
Total liabilities	<u>6,095,938</u>	<u>5,230,859</u>	<u>11,326,797</u>
Net assets, restricted for:			
Improvement account	419,642	322,799	742,441
Contingency account	282,500	-	282,500
Reserve account	626,199	419,256	1,045,455
Sinking account	25,161	9,474	34,635
Unrestricted	<u>8,035,939</u>	<u>5,198,801</u>	<u>13,234,740</u>
Total net assets	<u>9,389,441</u>	<u>5,950,330</u>	<u>15,339,771</u>
 Total liabilities and net assets	 <u>\$ 15,485,379</u>	 <u>11,181,189</u>	 <u>26,666,568</u>

MT. PLEASANT MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF MT. PLEASANT, IOWA

Combining Statement of Revenue, Expenses
and Changes in Net Assets
For the Year Ended June 30, 2004

	<u>Light</u>	<u>Water</u>	<u>Total</u>
Operating revenue:			
Metered sales	\$ 5,039,707	1,439,916	6,479,623
Other sales	34,754	-	34,754
Other revenue	29,972	27,892	57,864
Cut-off notice fee	5,490	1,830	7,320
Sewer and solid waste service fee	13,500	4,500	18,000
Penalty charges and bad debt recoveries	24,493	8,164	32,657
Total operating revenue	<u>5,147,916</u>	<u>1,482,302</u>	<u>6,630,218</u>
Operating expenses:			
Power, pumping and treatment plant	3,374,075	640,561	4,014,636
Transmission and distribution	1,006,307	630,067	1,636,374
General and administration	732,895	244,298	977,193
Total operating expenses	<u>5,113,277</u>	<u>1,514,926</u>	<u>6,628,203</u>
Net operating income (loss)	<u>34,639</u>	<u>(32,624)</u>	<u>2,015</u>
Non-operating revenue:			
Interest income	11,301	4,217	15,518
Interest income - restricted	34,807	3,796	38,603
Gain on sale of assets	920	120	1,040
Total other revenue	<u>47,028</u>	<u>8,133</u>	<u>55,161</u>
Non-operating expenses:			
Interest expense - restricted	292,174	181,748	473,922
Miscellaneous contracted services - restricted	500	-	500
Banking fees - restricted	322	2,642	2,964
Total other expenses	<u>292,996</u>	<u>184,390</u>	<u>477,386</u>
Change in net assets	(211,329)	(208,881)	(420,210)
Net assets beginning of year	9,703,553	6,149,041	15,852,594
Residual equity transfer	(10,170)	10,170	-
Prior period adjustment	(5,113)	-	(5,113)
Permanent transfer to City of Mt. Pleasant	<u>(87,500)</u>	<u>-</u>	<u>(87,500)</u>
Net assets end of year	<u>\$ 9,389,441</u>	<u>5,950,330</u>	<u>15,339,771</u>

See accompanying notes to financial statements.

MT. PLEASANT MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF MT. PLEASANT, IOWA

Combining Statement of Cash Flows
For the Year Ended June 30, 2004

	<u>Light</u>	<u>Water</u>	<u>Total</u>
Cash flow from operating activities:			
Cash received from customers and users	\$ 4,973,227	1,476,429	6,449,656
Cash received from other revenues	13,208	4,265	17,473
Cash paid to employees for services	(796,107)	(575,131)	(1,371,238)
Cash paid to suppliers	<u>(3,736,697)</u>	<u>(737,871)</u>	<u>(4,474,568)</u>
Net cash provided (used) by operating activities	<u>453,631</u>	<u>167,692</u>	<u>621,323</u>
Cash flow from capital activities:			
Permanent transfer to city	(87,500)	-	(87,500)
Residual equity transfer	(10,170)	10,170	-
Cash used for leases payable	-	(15,298)	(15,298)
Cash used for notes payable	(310,000)	(232,000)	(542,000)
Purchase of property and equipment	<u>(466,478)</u>	<u>(87,607)</u>	<u>(554,085)</u>
Net cash provided (used) by capital activities	<u>(874,148)</u>	<u>(324,735)</u>	<u>(1,198,883)</u>
Net change in cash	(420,517)	(157,043)	(577,560)
Cash and cash equivalents at beginning of year	<u>2,019,131</u>	<u>366,432</u>	<u>2,385,563</u>
Cash and cash equivalents at end of year	\$ <u><u>1,598,614</u></u>	<u><u>209,389</u></u>	<u><u>1,808,003</u></u>

(continued)

See accompanying notes to financial statements.

MT. PLEASANT MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF MT. PLEASANT, IOWA

Combining Statement of Cash Flows
For the Year Ended June 30, 2004

	<u>Light</u>	<u>Water</u>	<u>Total</u>
Cash flow from operating activities:			
Change in net assets	\$ (211,329)	(208,881)	(420,210)
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:			
Depreciation	663,930	404,757	1,068,687
Bond premium and issuance cost amortization	11,277	-	11,277
Changes in assets and liabilities:			
(Increase) decrease in accrued interest	987	(72)	915
(Increase) decrease in due from other accounts	(19,574)	19,574	-
(Increase) decrease in accounts receivable	(72,920)	(18,324)	(91,244)
(Increase) decrease in unbilled usage	(82,195)	(7,123)	(89,318)
(Increase) decrease in inventories	31,897	6,666	38,563
(Increase) decrease in prepaid expense	7,351	(5,471)	1,880
Increase (decrease) in customer deposits	11,383	-	11,383
Increase (decrease) in accounts payable and accrued expenses	<u>112,824</u>	<u>(23,434)</u>	<u>89,390</u>
Net cash provided (used) by operating activities	<u>453,631</u>	<u>167,692</u>	<u>621,323</u>
Cash flow from capital activities:			
Permanent transfer to city	(87,500)	-	(87,500)
Residual equity transfer	(10,170)	10,170	-
Cash used for leases payable	-	(15,298)	(15,298)
Cash used for notes payable	(310,000)	(232,000)	(542,000)
Purchase of property and equipment	<u>(466,478)</u>	<u>(87,607)</u>	<u>(554,085)</u>
Net cash provided (used) by capital activities	<u>(874,148)</u>	<u>(324,735)</u>	<u>(1,198,883)</u>
Net change in cash	(420,517)	(157,043)	(577,560)
Cash and cash equivalents at beginning of year	<u>2,019,131</u>	<u>366,432</u>	<u>2,385,563</u>
Cash and cash equivalents at end of year	\$ <u><u>1,598,614</u></u>	<u><u>209,389</u></u>	<u><u>1,808,003</u></u>

(continued)

See accompanying notes to financial statements.

MT. PLEASANT MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF MT. PLEASANT, IOWA

Combining Statement of Cash Flows (Continued)
For the Year Ended June 30, 2004

	<u>Light</u>	<u>Water</u>	<u>Total</u>
Cash and cash equivalents at end of year consists of:			
Current assets:			
Cash	\$ 495,339	(388,925)	106,414
Restricted assets:			
Cash	520,525	598,314	1,118,839
Other investments	<u>582,750</u>	<u>-</u>	<u>582,750</u>
Total cash and cash equivalents at end of year	\$ <u><u>1,598,614</u></u>	<u><u>209,389</u></u>	<u><u>1,808,003</u></u>

See accompanying notes to financial statements.

MT. PLEASANT MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF
MT. PLEASANT, IOWA

Notes to Financial Statements
June 30, 2004

Note 1 – Significant Accounting Policies

The Mt. Pleasant Municipal Utilities is a component unit of the City of Mt. Pleasant, Iowa. It was first formed in 1897 and operates under a trustee form of government provided by the Code of Iowa. A five-member board of trustees is appointed by the City Council of Mt. Pleasant to six year staggered terms. The Utilities provides electric and water service to citizens, businesses, industry and other entities in Mt. Pleasant and surrounding areas.

Reporting Entity

For financial reporting purposes, Mt. Pleasant Municipal Utilities has included all funds, organizations, account groups, agencies, boards, commissions and authorities. The Utilities has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the Utilities are such that exclusion would cause the Utilities' financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the Utilities to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the Utilities. These financial statements present the Mt. Pleasant Municipal Utilities and there are no component units to be presented. The Utilities is legally separate, but financially accountable to the City of Mt. Pleasant. The Mt. Pleasant City Council appoints the board and the Utilities' legal budget is subject to approval by the City Council. The financial statements of the Mt. Pleasant Municipal Utilities are prepared in accordance with U.S. generally accepted accounting principles. The Utilities apply Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails.

Inventories

The method used to figure the carrying value of inventories is the lower of average cost or market. Information as to the accounting policies relative to the carrying value of property and equipment, fund balances and the recognition of income from the services sold to the City is included in the other Notes to Financial Statements.

(continued)

MT. PLEASANT MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF
MT. PLEASANT, IOWA

Notes to Financial Statements (Continued)
June 30, 2004

Note 1 – Significant Accounting Policies (Continued)

General and Administrative

The allocation of general and administrative expenses and penalty income on the Combining Statement of Revenue, Expenses and Changes in Retained Earnings are allocated 75% and 25% to the Light and Water Funds, respectively.

Cash Equivalent

For purposes of the Combining Statement of Cash Flow, the Utilities considers all highly liquid investments, including restricted assets, with maturity of three months or less when purchased to be cash equivalents.

Basis of Presentation

The accounts of the Utilities are organized on the basis of funds. The operations are accounted for by providing a separate set of self-balancing accounts which comprise its assets, liabilities, net assets, revenues and expenses. The electric and water accounts are classified in the Enterprise Fund. The Enterprise Fund is utilized to finance and account for the acquisition, operation and maintenance of governmental facilities and services that are supported by user charges.

Measurement Focus and Basis of Accounting

The Utilities maintains its financial records on the accrual basis, which is the basis for the financial statements. The accrual basis of accounting recognizes revenues when earned rather than received. Expenses are recognized when incurred.

The proprietary funds of the Utility apply all applicable GASB pronouncements, as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins of the Committee on Accounting Procedure.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Utilities' Enterprise Fund is charges to customers for sales and services. Operating expenses for the Enterprise Fund include the cost of sales and services, administrative expenses and depreciation on capital assets.

(continued)

MT. PLEASANT MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF
MT. PLEASANT, IOWA

Notes to Financial Statements (Continued)
June 30, 2004

Note 1 – Significant Accounting Policies (Continued)

Budgets and Budgetary Accounting

The Utilities adopts an accrual basis budget for operating purposes. The Utilities then submits a cash basis (legal) budget to the City Council for approval in the City's budget process. The legal budget may be amended during the year utilizing the statutory procedures available to the City.

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2004, disbursements exceeded the amount budgeted.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Note 2 – Property and Equipment Accounting Policies

Vanguard Appraisals, Inc., an appraisal company, inspected the property and equipment of the Light and Water Funds and computed the appraised value based on market conditions as of November 1, 1973. Property and equipment acquired prior to November 1, 1973 is being accounted for on the basis of those appraised values. The appraised value of the depreciable property and equipment is being depreciated by the straight-line method over its estimated remaining useful life on November 1, 1973.

Complete property and equipment cost records are not available, making it impossible to determine the effect of the use of appraised values on the presentation of financial position and results of operations.

(continued)

MT. PLEASANT MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF
MT. PLEASANT, IOWA

Notes to Financial Statements (Continued)
June 30, 2004

Note 2 – Property and Equipment Accounting Policies (Continued)

Accounting for property and equipment on the basis of appraised values is not in accordance with accounting principles generally accepted in the United States of America.

Property and equipment acquired subsequent to November 1, 1973, is accounted for on the basis of cost. Depreciation is computed by the straight-line method based on the estimated useful life of the property and equipment. Detail of property and equipment at June 30, 2004 by category is as follows:

<u>At Appraised Value</u>	<u>Light Fund</u>	<u>Water Fund</u>
Buildings	\$ 598,000	146,000
Production equipment	1,653,400	504,300
Distribution equipment	809,400	917,200
Machinery and equipment	30,250	12,995
Office furnitures and fixtures	8,400	4,200
Total	\$ <u>3,099,450</u>	<u>1,584,695</u>
<u>At Cost</u>	<u>Light Fund</u>	<u>Water Fund</u>
Land	\$ -	131,975
Land improvements	23,653	-
Edr treatment plant	-	6,149,810
Buildings	362,552	1,274,468
Production equipment	9,817,179	523,314
Distribution system	6,886,677	3,219,829
Water tower	-	1,216,996
Machinery and equipment	622,371	616,377
Transportation equipment	150,727	-
Office furniture and fixtures	146,620	50,018
Consultant services	1,124,329	851,725
Steam supply line	42,667	-
Computer	167,325	-
Leasehold improvements	22,703	-
Total	\$ <u>19,366,803</u>	<u>14,034,512</u>

(continued)

MT. PLEASANT MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF
MT. PLEASANT, IOWA

Notes to Financial Statements (Continued)
June 30, 2004

Note 2 – Property and Equipment Accounting Policies (Continued)

The land on which the Utilities' general offices, power, and water plants are located is owned by the City of Mt. Pleasant, Iowa. The Utilities paid the City \$48,000 for the permanent use of the land. However, see Note 4 regarding electricity, water and related services furnished to the City without charge.

Note 3 – Contributed Capital, Retained Earnings and Appraisal Increase

Available accounting records are not adequate to make it possible to separately identify and account for contributed capital, net assets and the appraisal increase of property and equipment. As a result, these separate elements of the net assets of the Light and Water Accounts are grouped for financial statement presentation. The combined presentation of these components of the fund balance is not in accordance with U.S. generally accepted accounting principles.

Note 4 – Donated Electricity and Water

The municipal parks, city hall and other municipally operated facilities in the City of Mt. Pleasant are not billed for electricity and water usage, service and materials provided them during the year. The meters from these facilities are read monthly and the resulting amount computed at normal rates is considered to be a donation to the City. During the year ended June 30, 2004, services donated to the City totaled \$208,539 and \$29,630 for the Light and Water Funds, respectively. No revenue has been recognized in the financial statements for these amounts.

Note 5 – Deposits and Investments

The Municipal Utilities' deposits at June 30, 2004 were entirely covered by Federal depository insurance or collateralized with securities held by the Utilities or the Utilities' agent in the Utilities' name, or by a multiple financial institution collateral pool in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The Municipal Utilities pools investment funds to gain the best possible interest rates. Control records are maintained for the investment balance related to each account, the total of which is the total of investments pooled.

(continued)

MT. PLEASANT MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF
MT. PLEASANT, IOWA

Notes to Financial Statements (Continued)
June 30, 2004

Note 5 – Deposits and Investments (Continued)

The Municipal Utilities is authorized by statute to invest public funds not currently needed for operating expenses in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Trustees, prime eligible bankers acceptances, certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The Municipal Utilities' investments are categorized to give an indication of the level of risk assumed by the Municipal Utilities at year end. The Utilities' investments are all category 1 which means the investments are insured or registered or the securities are held by the Utilities or its agent in the Utilities' name.

Note 6 – Pension and Retirement Benefits

The Utilities contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 3.70% of their annual salary and the Utilities is required to contribute 5.75% of annual covered payroll. Contribution requirements are established by State Statute. The Utilities' contributions to IPERS for the years ended June 30, 2004, 2003 and 2002 were \$79,809, \$81,142 and \$71,859 respectively, equal to the required contributions for the year.

Note 7 – Major Suppliers

All of the Utilities' purchased power is from one supplier. The total amount purchased was \$2,241,479 which represents 94.4% of total kilowatt hours generated and purchased.

The current power agreement expires December 31, 2008. A new agreement is subject to approval by both parties.

MT. PLEASANT MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF
MT. PLEASANT, IOWA

Notes to Financial Statements (Continued)
June 30, 2004

Note 8 – Compensated Absences

Utilities' employees accumulate a limited amount of earned but unused vacation and sick leave hours for subsequent use or for payment upon termination, retirement or death.

Vacation pay has been accrued in the financial records as a liability for time earned but not used at June 30, 2004. This amount based on June 30, 2004 wages and salaries was \$79,889.

Employee sick leave accumulates up to a maximum of 120 days, which does not vest. However, upon retirement at age 62 or older, or upon death, whichever occurs first, the employee will be paid 100% of their accumulated sick leave to a maximum of 90 days. To receive this benefit, the employee must have applied for and been approved for IPERS retirement benefits or reached age 62 and retired. An employee who quits or is fired is not eligible for payment of accumulated sick leave. The Mt. Pleasant Utilities has adopted a policy to accrue accumulated sick leave for employees they are anticipating will retire within three years. Each year during this three year period, one third of the contingent liability for that employee's accumulated sick leave (up to 90 days) will be accrued in the financial records. On June 30, 2004, there was no liability.

The maximum additional contingent liability for employee sick leave accruals at June 30, 2004 is approximately \$166,440.

Note 9 – Certified Budget

During the year ended June 30, 2004, disbursements exceeded the amount budgeted.

Note 10 – Cash Flow Information

Cash paid for interest and taxes for the year ended June 30, 2004 was as follows:

Interest	\$476,721
Taxes	-

Note 11 – Accounts Receivable

The Utilities supplies electric and water services to businesses and residents of Mt. Pleasant and surrounding areas. The Utilities grants credit to these customers.

MT. PLEASANT MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF
MT. PLEASANT, IOWA

Notes to Financial Statements (Continued)
June 30, 2004

Note 12 – Concentration of Risk

As of June 30, 2004, the Utilities had cash equivalents at financial institutions which exceed federally insured limits. These balances fluctuate greatly during the year and exceed the \$100,000 limit. However, the balances in excess of the federally insured limits are covered by the state sinking fund.

Note 13 – Restricted Cash and Investments

The Utilities by resolution of the board set aside funds on a monthly basis for specific purposes. These funds are only available upon board authorization. The funds set aside for year ended June 30, 2004 are as follows:

<u>Fund</u>	<u>Purpose</u>	<u>Annual Set-Aside Amount</u>
Light Improvement	Major capital improvement	\$ 120,000
Water Improvement	Major capital improvement	48,000
Water Sinking	Debt service	192,005
Water Reserve	Debt service	95,879
Electric Sinking	Debt service	253,871
Electric Reserve	Debt service	12,000

Restricted cash consists of the following:

	<u>Interest Earned</u>	<u>Cash</u>	<u>Fund Equity Designations</u>
Light Improvement Account	\$ 2,115	\$ 419,642	Light Improvement
Contingency Account	-	282,500	Contingency
Water Improvement Account	3,796	322,799	Water Improvement
Water Sinking Account	-	6,179	Water Sinking
Water Reserve Account	-	419,256	Water Reserve
Electric Sinking Account	-	25,161	Electric Sinking
Electric Reserve Account	32,692	<u>626,199</u>	Electric Reserve
Total restricted cash		\$ <u>2,101,736</u>	

(continued)

MT. PLEASANT MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF
MT. PLEASANT, IOWA

Notes to Financial Statements (Continued)
June 30, 2004

Note 13 – Restricted Cash and Investments (Continued)

During the year the following transfers between accounts were made:

<u>Transfer From</u>	<u>Transfer To</u>	<u>Amount</u>
Electric Contingency	Electric Operating	\$ 317,500
Electric Reserve	Electric Sinking	32,692
Water Reserve	Water Operating	45,661
Electric Improvement	Electric Operating	331,897
Water Improvement	Water Operating	52,000

The board authorized all transfers.

Note 14 – Allowance for Doubtful Accounts

As of June 30, 2004, accounts receivable was shown net of their allowance for doubtful accounts for electric and water of \$3,750 and \$1,250, respectively.

Note 15 – Risk Management

The Utilities is exposed to various risks of loss related to torts, theft, damage to and destruction of assets, errors and omissions, injuries to employees, and natural disasters. These risks are covered by the purchase of commercial insurance coverage. Settled claims from risks have not exceeded commercial insurance coverage in any of the past three years.

Note 16 – Prior Period Adjustment

In the course of the audit of June 30, 2004 financial statements, it was determined that depreciation in the prior year was not correct. As a result, the net assets have been restated from amounts previously reported to reflect a retroactive adjustment of \$5,113.

MT. PLEASANT MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF
MT. PLEASANT, IOWA

Notes to Financial Statements (Continued)
June 30, 2004

Note 17 – Notes Payable

Annual debt service requirements to maturity for revenue notes per the resolution are as follows:

Year Ending June 30	<u>Water Revenue Notes</u>		Service Fees	<u>Electric Revenue Notes</u>	
	<u>Principal</u>	<u>Interest</u>		<u>Principal</u>	<u>Interest</u>
2005 \$	240,000	174,100	2,526	320,000	259,765
2006	249,000	165,469	2,406	335,000	246,165
2007	258,000	156,520	2,281	350,000	231,090
2008	267,000	147,254	2,152	365,000	215,340
2009	276,000	137,670	2,019	380,000	198,003
2010	286,000	127,752	1,881	400,000	179,953
2011	296,000	117,478	1,738	420,000	161,953
2012	306,000	106,853	1,590	435,000	142,843
2013	317,000	95,857	1,437	460,000	122,615
2014	328,000	84,473	1,279	480,000	100,765
2015	340,000	72,683	1,115	500,000	77,725
2016	352,000	60,469	945	525,000	53,475
2017	365,000	47,814	769	555,000	27,750
2018	377,000	34,718	586	-	-
2019	391,000	21,162	397	-	-
2020	<u>404,000</u>	<u>7,130</u>	<u>201</u>	<u>-</u>	<u>-</u>
\$	<u>5,052,000</u>	<u>1,557,402</u>	<u>23,322</u>	<u>5,525,000</u>	<u>2,017,442</u>

(continued)

MT. PLEASANT MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF
MT. PLEASANT, IOWA

Notes to Financial Statements (Continued)
June 30, 2004

Note 17 – Notes Payable (Continued)

The resolution providing for a loan agreement between the Mt. Pleasant Utilities and the Department of Natural Resources, and securing the payment of \$5,934,000 Water Revenue Capital Loan Notes, Series 1999 include the following provisions:

All revenues were deposited in a water revenue account. From the water revenue account, transfers may be made to the following accounts:

1. Monthly transfers to cover the operations and maintenance of the water system plus 1/12th of any annual system cost into an operations and maintenance account.
2. Monthly transfers equal to 1/12th of the next principal payment and 1/6th of the next interest payment into a water sinking account.
3. Monthly transfers equal to a reserve account requirement which is 25% of the amount to be deposited in the water sinking account, to be deposited into a water reserve account.

The Utilities issued electric revenue bonds in an aggregate principal amount of \$6,415,000 dated May 1, 2001. Bond issuance costs were capitalized and netted with bond premium. The net unamortized costs were \$152,769 at June 30, 2004. The bonds are shown net of the unamortized costs on the balance sheet. The net unamortized costs will be amortized over the life of the bonds.

All revenues were deposited in the electric revenue account. After reserving an adequate sum as working capital for the system, the following payments only shall be made:

1. All reasonable and proper expenses of operating, maintaining and repairing the system.
2. Monthly transfers equal to 1/12th of the next principle payment and 1/6th of the next interest payment into an electric sinking account.
3. Monthly transfers into debt service reserve account such sum, but not in excess of amounts deposited in the sinking account as may be necessary and available, to make up any deficiency in the debt service reserve account requirement.
4. Monthly into repairs and replacement account an amount equal to \$1,000 unless and until the balance on deposit in the repairs and replacement account is equal to \$50,000.

MT. PLEASANT MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF
MT. PLEASANT, IOWA

Notes to Financial Statements (Continued)
June 30, 2004

Note 18 – Capital Leases

The Utilities has a capital lease with Harco Leasing Company, Inc. for an International Dump Truck. The lease is dated October 18, 2002, and had a financed amount of \$47,960 with an interest rate of 4.44% per annum. The two-year note states an annual payment of \$16,686 with a bargain purchase option of principle plus 2% at the end of the lease.

Lease Payments:	October 18, 2004	\$	16,686
	Interest included	(<u>710</u>)
	Total lease payments	\$	<u>15,976</u>

Amortization for the current year is included in depreciation expense and accumulated amortization is included in accumulated depreciation.

Note 19 – Related Party Transactions

The Utilities had business transactions between the Utilities and Utility employees, totaling \$3,022 during the year ended June 30, 2004.

Note 20 – Transfer of Funds to City

Beginning in 2003, the Utilities was required to transfer funds to the general fund of the City of Mt. Pleasant. The amount transferred for the year ended June 30, 2004 was \$87,500.

Note 21 – Accounting Change

Governmental Accounting Standards Board Interpretation No. 6, Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements, was implemented for the year ended June 30, 2004. The interpretation modifies when compensated absence liabilities are recorded under the modified accrual basis of accounting.

The Governmental Accounting Standards Board has issued Statement No. 34, Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments; Statement No. 37, Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments: Omnibus; Statement No. 38, Certain Financial Statement Note Disclosures; and Statement No. 41, Budgetary Comparison Schedule – Perspective Differences were implemented for the fiscal year ended June 30, 2004.

The change did not result in any restatement to the financial statements.

Required Supplementary Information

MT. PLEASANT MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF MT. PLEASANT, IOWA

Budgetary Comparison Schedule of
Receipts, Disbursements and Changes in Net Assets -
Budget and Actual (Cash Basis)

Required Supplementary Information

Year Ended June 30, 2004

		Budgeted Amounts		Final to
	Actual	Original	Final	Actual Variance
Receipts	\$ 6,466,214	6,175,500	6,175,500	290,714
Disbursements, including capital outlay	7,044,689	6,373,569	6,793,569	(251,120)
Excess (deficit) of receipts over disbursements	<u>(578,475)</u>	<u>(198,069)</u>	<u>(618,069)</u>	<u>39,594</u>
Beginning net assets	4,415,596	3,568,974	3,568,974	846,622
Ending net assets	\$ <u>3,837,121</u>	<u>3,370,905</u>	<u>2,950,905</u>	<u>886,216</u>

See accompanying independent auditors' report on supplemental data.

MT. PLEASANT MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF MT. PLEASANT, IOWA

Budget to GAAP Reconciliation

Required Supplementary Information

Year Ended June 30, 2004

	Proprietary Funds		
	Enterprise		
	Accrual		
	Cash Basis	Adjustments	Accrual Basis
Revenues	\$ 6,466,214	219,165	6,685,379
Expenditures / expenses	6,957,189	148,400	7,105,589
Net	(490,975)	70,765	(420,210)
Other financing sources, net	(87,500)	(5,113)	(92,613)
Beginning net assets	4,415,596	11,436,998	15,852,594
Ending net assets	\$ 3,837,121	11,502,650	15,339,771

See accompanying independent auditors' report on supplemental data.

MT. PLEASANT MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF
MT. PLEASANT, IOWA

Notes to Required Supplementary Information – Budgetary Reporting
June 30, 2004

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon 9 major classes of disbursements known as functions, not by fund or fund type. One of the 9 functions includes the business type activities. Function disbursements required to be budgeted include disbursements for the Enterprise Fund. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, two budget amendments increased budgeted disbursements by \$420,000. These budget amendments are reflected in the final budgeted amounts.

Other Supplementary Information

MT. PLEASANT MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF MT. PLEASANT, IOWA

Unaudited Comparative Operating Statistics

	Year Ended June 30,	
	2004	2003
Number of customers served:		
Electricity:		
Residential	3,150	3,122
Commercial	601	580
Electric heat	198	197
Vapor lights	121	124
Special commercial demand	34	32
Steam	1	1
Water	3,496	3,412
Kilowatt hours:		
Number of kilowatt hours purchased	73,019,962	71,488,835
Number of kilowatt hours produced	4,319,998	3,176,683
	<u>77,339,960</u>	<u>74,665,518</u>
Number of kilowatt hours sold	64,220,459	62,366,918
% of kilowatt hours sold to total produced and purchased	83.04%	83.53%
Number of kilowatt hours for export	588,161	1,088,160
Number of kilowatt hours for internal use	4,837,110	5,418,390
Number of kilowatt hours donated to city	3,585,657	3,062,319
	<u>9,010,928</u>	<u>9,568,869</u>
Gallons:		
Number of gallons pumped	653,780,400	693,672,500
Number of gallons billed	509,100,856	516,204,515
% of gallons billed to total pumped	77.87%	74.42%
Number of gallons for internal use	2,574,280	2,286,362
Number of gallons donated to city	3,254,534	3,352,101
	<u>5,828,814</u>	<u>5,638,463</u>

The foregoing operating statistics are presented on the basis of unaudited records maintained in the Utilities' offices. The amounts and the accuracy of the operating statistics were not investigated by the auditor.

See accompanying independent auditors' report on supplemental data.

2002	2001	2000	1999	1998
3,106	3,094	3,079	3,110	3,060
567	563	553	567	596
203	204	205	218	221
124	90	95	123	122
30	30	30	15	14
1	1	1	1	1
3,385	3,354	3,319	3,326	3,283
70,113,199	74,612,000	68,000,000	65,442,200	62,861,600
47,360	80,160	417,632	650,400	305,600
70,160,559	74,692,160	68,417,632	66,092,600	63,167,200
60,844,890	62,061,269	59,304,527	58,781,449	55,857,829
86.72%	83.09%	86.68%	88.94%	88.43%
-	-	-	-	-
4,335,999	3,986,724	3,433,702	3,265,270	2,532,716
2,397,848	2,231,994	2,172,936	2,136,236	2,108,540
6,733,847	6,218,718	5,606,638	5,401,506	4,641,256
675,764,100	587,141,400	527,793,900	511,986,000	413,607,000
520,524,706	440,081,057	378,847,692	357,163,790	359,565,432
77.03%	74.95%	71.78%	69.76%	86.93%
3,419,619	6,678,597	8,773,645	2,500,815	2,570,600
3,855,091	8,409,082	5,057,226	5,012,472	3,609,730
7,274,710	15,087,679	13,830,871	7,513,287	6,180,330

MT. PLEASANT MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF MT. PLEASANT, IOWA

Schedule of Net Asset Detail
June 30, 2004

	<u>Light</u>	<u>Water</u>	<u>Total</u>
Accounts payable and accrued expenses, payable from current assets:			
Trade accounts payable	\$ 395,905	13,392	409,297
Salaries and wages	73,680	31,293	104,973
Payroll and withholding taxes	14,787	-	14,787
Sales tax payable	12,171	-	12,171
Sewer and trash payable	89,131	-	89,131
Interest payable	<u>-</u>	<u>496</u>	<u>496</u>
Total	\$ <u>585,674</u>	<u>45,181</u>	<u>630,855</u>

See accompanying independent auditors' report on supplemental data.

MT. PLEASANT MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF MT. PLEASANT, IOWA

Schedule of Net Asset Detail
June 30, 2004

		Assets		
	Balance		Trades	Balance
	June 30,	Acquisitions	and	June 30,
	2003	(Eliminations)	(Adjustments)	2004
<hr/>				
Property and equipment:				
Light Fund:				
At appraisal values:				
Buildings	\$ 598,000	-	-	598,000
Generating equipment	1,653,400	-	-	1,653,400
Distribution system	809,400	-	-	809,400
Machinery and equipment	30,250	-	-	30,250
Office furniture and fixtures	8,400	-	-	8,400
	<hr/>	<hr/>	<hr/>	<hr/>
Total	\$ 3,099,450	-	-	3,099,450
	<hr/>	<hr/>	<hr/>	<hr/>
At cost:				
Land improvement	\$ 23,653	-	-	23,653
Buildings	362,552	-	-	362,552
Generating equipment	9,507,176	310,003	-	9,817,179
Distribution equipment	6,766,381	49,153	-	6,815,534
Machinery and equipment	597,444	24,927	-	622,371
Transportation equipment	150,727	-	-	150,727
Office furniture and fixtures	109,621	36,999	-	146,620
Consultant services	1,124,329	-	-	1,124,329
Steam supply line	42,667	-	-	42,667
Computer	166,968	357	-	167,325
Construction in progress	26,104	71,143	(26,104)	71,143
Leasehold improvements	22,703	-	-	22,703
	<hr/>	<hr/>	<hr/>	<hr/>
Total	\$ 18,900,325	492,582	(26,104)	19,366,803
	<hr/>	<hr/>	<hr/>	<hr/>

* See Note 2 of the Notes to Financial Statements regarding accounting for property and equipment.

(continued)

See accompanying independent auditors' report on supplemental data.

Assets		Accumulated Depreciation			Depreciated	
Estimated Life In Years		Balance June 30, 2003	Acquisitions (Eliminations)	Trades and (Adjustments)	Balance June 30, 2004	Cost June 30, 2004
30	\$	593,593	4,407	-	598,000	-
30		1,635,179	18,221	-	1,653,400	-
30		800,390	9,010	-	809,400	-
8-10		30,250	-	-	30,250	-
5		8,400	-	-	8,400	-
	\$	<u>3,067,812</u>	<u>31,638</u>	<u>-</u>	<u>3,099,450</u>	<u>-</u>
15	\$	17,843	907	-	18,750	4,903
30		125,980	12,024	-	138,004	224,548
10-30		1,425,130	320,132	-	1,745,262	8,071,917
30		3,155,277	226,365	-	3,381,642	3,433,892
8-10		394,106	44,027	-	438,133	184,238
5		150,727	-	-	150,727	-
5-10		88,539	11,696	-	100,235	46,385
5		1,119,160	4,424	-	1,123,584	745
10-30		38,800	783	-	39,583	3,084
3-8		144,620	11,933	-	156,553	10,772
		-	-	-	-	71,143
5		22,703	-	-	22,703	-
	\$	<u>6,682,885</u>	<u>632,291</u>	<u>-</u>	<u>7,315,176</u>	<u>12,051,627</u>

MT. PLEASANT MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF MT. PLEASANT, IOWA

Schedule of Net Asset Detail (Continued)
June 30, 2004

		Assets			
		Balance June 30, 2003	Acquisitions (Eliminations)	Trades and (Adjustments)	Balance June 30, 2004
Property and equipment:					
Water Fund:					
At appraisal values:					
Buildings	\$	146,000	-	-	146,000
Pumping and filtering equipment		504,300	-	-	504,300
Distribution system		917,200	-	-	917,200
Machinery and equipment		12,995	-	-	12,995
Office furniture and fixtures		4,200	-	-	4,200
Total	\$	<u>1,584,695</u>	<u>-</u>	<u>-</u>	<u>1,584,695</u>
At cost:					
Buildings	\$	1,273,712	756	-	1,274,468
Edr treatment plant		6,149,810	-	-	6,149,810
Pumping and filtering equipment		493,633	29,681	-	523,314
Distribution system		3,119,071	48,039	-	3,167,110
Water tower		1,216,996	-	-	1,216,996
Machinery and equipment		597,690	18,687	-	616,377
Land		131,975	-	-	131,975
Consultants services		851,725	-	-	851,725
Construction in progress		65,150	52,719	(65,150)	52,719
Furniture and fixtures		47,143	2,875	-	50,018
Total	\$	<u>13,946,905</u>	<u>152,757</u>	<u>(65,150)</u>	<u>14,034,512</u>

* See Note 2 of the Notes to Financial Statements regarding accounting for property and equipment.

See accompanying independent auditors' report on supplemental data.

Assets		Accumulated Depreciation			Depreciated	
Estimated Life In Years		Balance June 30, 2003	Acquisitions (Eliminations)	Trades and (Adjustments)	Balance June 30, 2004	Cost June 30, 2004
10-30	\$	146,000	-	-	146,000	-
21-30		499,719	4,581	-	504,300	-
40		680,462	22,930	-	703,392	213,808
8-10		12,995	-	-	12,995	-
10		4,200	-	-	4,200	-
	\$	<u>1,343,376</u>	<u>27,511</u>	<u>-</u>	<u>1,370,887</u>	<u>213,808</u>
10-30	\$	572,445	37,502	-	609,947	664,521
40		633,707	153,745	-	787,452	5,362,358
25-40		149,726	18,515	-	168,241	355,073
40		885,926	79,265	-	965,191	2,201,919
21-40		298,717	32,503	-	331,220	885,776
5-10		468,221	40,346	-	508,567	107,810
		-	-	-	-	131,975
5		818,974	11,348	-	830,322	21,403
		-	-	-	-	52,719
10		19,439	4,022	-	23,461	26,557
	\$	<u>3,847,155</u>	<u>377,246</u>	<u>-</u>	<u>4,224,401</u>	<u>9,810,111</u>

MT. PLEASANT MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF MT. PLEASANT, IOWA

Expense Detail
June 30, 2004

	<u>Actual</u>	<u>Operating Budget</u>
Operating expenses:		
Light Fund:		
Power, pumping and treatment plant:		
Supervision salaries	\$ 27,635	26,625
Power plant:		
Fuel, coal and oil	276,297	250,000
Purchased power	2,241,479	2,130,000
Production:		
Labor	190,642	179,400
Chemicals	39,548	35,000
Maintenance:		
Labor	86,111	76,000
Supplies	14,416	12,000
Other:		
Meal allowance	-	100
Miscellaneous	184	696
Depreciation	358,635	401,900
Use tax	11,306	-
Mileage	-	100
Freight	-	150
Miscellaneous contracted service	75,413	60,000
Repairs	3,014	2,500
Education and training	-	200
Insurance	37,213	37,100
Bond issuance cost	11,832	11,800
Permits	350	750
Total power, pumping and treatment plant	\$ <u>3,374,075</u>	<u>3,224,321</u>

(continued)

See accompanying independent auditors' report on supplemental data.

MT. PLEASANT MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF MT. PLEASANT, IOWA

Expense Detail (Continued)
June 30, 2004

	<u>Actual</u>	<u>Operating Budget</u>
Operating expenses:		
Light Fund (continued):		
Transmission and distribution:		
Maintenance of line:		
Labor	\$ 202,874	222,975
Supplies	42,314	40,000
Maintenance of park and street:		
Lighting:		
Labor	7,619	18,500
Supplies	5,157	15,000
Maintenance of meters:		
Labor	20,459	20,350
Supplies	13,329	9,000
Removing and resetting meters	22,141	20,350
Other:		
Substation settlement	317,500	-
Depreciation	293,362	320,300
Vehicle supplies	523	750
Vehicle repair	4,673	3,000
Mileage	-	250
Lodging	463	500
Meals allowance	157	250
Freight	-	300
Miscellaneous contracted services	33,988	70,000
Repairs	1,172	2,300
Insurance	37,470	37,100
Chemicals	22	200
Miscellaneous	1,330	663
Books and instructional materials	1,093	500
Education and training	661	2,500
Total transmission and distribution	\$ <u>1,006,307</u>	<u>784,788</u>

See accompanying independent auditors' report on supplemental data.

MT. PLEASANT MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF MT. PLEASANT, IOWA

Expense Detail (Continued)
June 30, 2004

	<u>Actual</u>	<u>Operating Budget</u>
Operating expenses:		
Water Fund:		
Pumping and treatment plant:		
Supervision salaries	\$ 25,556	26,900
Maintenance of pumping equipment:		
Labor	242,795	238,650
Supplies	54,810	61,000
Outside analytical services	85	2,500
Pumping station expense	18,194	10,000
Insurance	39,422	38,900
Chemicals	66,545	60,000
Depreciation	176,927	242,000
Other pumping and treatment expenses:		
Permits	2,230	1,500
Education and training	1,135	1,000
Books and instructional material	-	500
Miscellaneous	1,133	782
Mileage	206	300
Lodging	274	300
Meal allowance	276	300
Miscellaneous contracted services	4,634	7,500
Repairs	2,401	5,000
Vehicle repairs and supplies	3,938	1,000
Total pumping and treatment plant	\$ <u>640,561</u>	<u>698,132</u>

(continued)

See accompanying independent auditors' report on supplemental data.

MT. PLEASANT MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF MT. PLEASANT, IOWA

Expense Detail (Continued)
June 30, 2004

	<u>Actual</u>	<u>Operating Budget</u>
Operating expenses:		
Water Fund (continued):		
Transmission and distribution:		
Supervision salaries	\$ 25,556	26,900
Removing and resetting meters	40,084	40,225
Maintenance of mains:		
Labor	145,280	116,000
Supplies	28,712	25,000
Maintenance of meters:		
Labor	6,350	6,525
Supplies	41,802	30,000
Maintenance of hydrants:		
Labor	11,808	9,525
Supplies	3,227	10,000
Other transmission and distribution:		
Vehicle expense	456	1,000
Depreciation	227,830	188,000
Permits	-	200
Education and training	923	1,000
Miscellaneous	3,736	2,424
Mileage	539	250
Lodging	274	300
Meal allowance	114	300
Freight	-	125
Miscellaneous contracted services	46,593	2,500
Repairs	3,035	3,000
Vehicle repairs	662	2,000
Analytical service	2,740	-
Interest expense	914	1,389
Insurance	39,432	38,900
Total transmission and distribution	\$ <u>630,067</u>	<u>505,563</u>

See accompanying independent auditors' report on supplemental data.

MT. PLEASANT MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF MT. PLEASANT, IOWA

Expense Detail (Continued)
June 30, 2004

	<u>Actual</u>	<u>Operating Budget</u>
Operating expenses:		
Light and Water Funds:		
General and administrative:		
Education and training	\$ 395	250
Advertising	3,019	2,500
Repairs	13	500
Business meals	123	300
Administrative salaries	115,904	113,750
Administrative supplies	4,835	6,500
Trustee salaries	7,200	7,200
Accounting and collecting labor	153,468	154,300
Computer maintenance and supplies	3,280	5,500
Maintenance agreements	8,165	9,500
Bank charges	118	250
Courtesy	1,601	1,500
Insurance	21,892	22,400
Dues, assessments, and subscriptions	44,756	19,000
Meter reading wages	55,296	50,100
Meter reading supplies	80	200
Provision for doubtful accounts	24,481	35,000
Printing	4,226	4,500
First aid supplies	-	200
Postage	17,379	14,200
Telephone	16,957	13,500
Contractual services	6,198	5,000
Professional fees	25,027	40,200
Payroll tax expense	106,180	106,700
Pension expense (IPERS)	79,809	77,950
Group insurance	200,074	173,925
Mileage	1,087	700
Transportation and vehicle expense	15,093	15,250
Options 2000	2,261	2,500

(continued)

See accompanying independent auditors' report on supplemental data.

MT. PLEASANT MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF MT. PLEASANT, IOWA

Expense Detail (Continued)
June 30, 2004

	<u>Actual</u>	<u>Operating Budget</u>
Operating expenses:		
Light and Water Funds (continued):		
General and administrative (continued):		
Use tax expense	7,464	5,000
Safety program	2,390	2,500
Miscellaneous	2,387	925
Lodging	829	800
Drug testing	773	750
Economic development	32,500	17,500
Depreciation computer	<u>11,933</u>	<u>11,650</u>
Total general and administrative	\$ <u><u>977,193</u></u>	<u><u>922,500</u></u>
 Allocated as follows:		
Electric Fund	\$ 732,895	
Water Fund	<u>244,298</u>	
 Total as above	\$ <u><u>977,193</u></u>	

* See Note 1 of the Notes to Financial Statements regarding the allocation method.

See accompanying independent auditors' report on supplemental data.

MT. PLEASANT MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF MT. PLEASANT, IOWA

Note Maturities
June 30, 2004

Water Revenue Note Issued December 1, 1999			Electric Revenue Note Issued May 1, 2002		
Year Ending June 30,	Interest Rate	Amount	Interest Rate	Amount	
2005	3.53	\$ 240,000	4.25	\$ 320,000	
2006	3.53	249,000	4.50	335,000	
2007	3.53	258,000	4.50	350,000	
2008	3.53	267,000	4.75	365,000	
2009	3.53	276,000	4.75	380,000	
2010	3.53	286,000	4.50	400,000	
2011	3.53	296,000	4.55	420,000	
2012	3.53	306,000	4.65	435,000	
2013	3.53	317,000	4.75	460,000	
2014	3.53	328,000	4.80	480,000	
2015	3.53	340,000	4.85	500,000	
2016	3.53	352,000	4.90	525,000	
2017	3.53	365,000	5.00	555,000	
2018	3.53	377,000	-	-	
2019	3.53	391,000	-	-	
2020	3.53	404,000	-	-	
Total		\$ <u>5,052,000</u>		\$ <u>5,525,000</u>	

See accompanying independent auditors' report on supplemental data.

Independent Auditors' Report on Compliance
and Internal Control Over Financial Reporting

To the Board of Trustees
Mt. Pleasant Municipal Utilities
Mt. Pleasant, Iowa

We have audited the financial statements of Mt. Pleasant Municipal Utilities – a component unit of the City of Mt. Pleasant, Iowa, as of and for the year ended June 30, 2004, and have issued our report thereon dated August 20, 2004. Our report expressed an unqualified opinion on the financial statements which were prepared in conformity with U.S. generally accepted accounting principles, except for the property and equipment acquired prior to November 1, 1973, that is being accounted for and depreciated for periods since that date on appraisal values representing fair value as of that date. We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Mt. Pleasant Municipal Utilities' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and contracts, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance that are described in Part III of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the Mt. Pleasant Municipal Utilities' operations for the year ended June 30, 2004 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Mt. Pleasant Municipal Utilities. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes. Prior year statutory comments have been resolved.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Mt. Pleasant Municipal Utilities' internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Mt. Pleasant Municipal Utilities' ability to record, process, summarize and report financial data consistent with the assertion of management in the financial statements. Reportable conditions are described as Part II of the accompanying Schedule of Findings.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe item II-A-04 is a material weakness. Prior year reportable conditions in items II-A-04, and II-B-04 have not been resolved.

This report is intended solely for the information of the Mt. Pleasant Municipal Utilities officials and other parties to whom the Mt. Pleasant Utilities may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the Mt. Pleasant Municipal Utilities during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

Theobald, Donohue & Thompson, P.C.

Mt. Pleasant, Iowa
August 20, 2004

MT. PLEASANT MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF
MT. PLEASANT, IOWA

Schedule of Findings
Year Ended June 30, 2004

Part I: Summary of the Independent Auditors' Results:

1. A qualified opinion was issued on the financial statements because of the effects of appraised values of equipment and fund balance breakdown.
2. Reportable conditions in internal control over financial reporting were disclosed by the audit of the financial statements, including material weaknesses.
3. The audit did not disclose any non-compliance which is material to the financial statements.

MT. PLEASANT MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF
MT. PLEASANT, IOWA

Schedule of Findings (Continued)
Year Ended June 30, 2004

Part II: Findings Related to the Financial Statements:

Instances of Non-Compliance:

No matters were noted.

Reportable Conditions:

II-A-04 Accounting Records – Accounts receivable general ledger control accounts do not match the subsidiary ledger on a month to month basis.

Recommendation – The accounts receivable subsidiary ledger and accounts receivable general ledger control accounts should be reviewed to determine the actual accounts receivable balance.

Response – We will review accounts receivable.

Conclusion – The balancing of a subsidiary ledger to a control account is a basic accounting procedure. Every effort should be made to correct the computer program for this weakness.

II-B-04 Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. The cash receipts listing, bank deposits and the posting of the cash receipts to the cash receipts journal are all done by the same person.

Recommendation – We realize that with a limited number of office employees, segregation of duties is difficult. However, the Utilities should review its control procedures to obtain the maximum internal control possible under the circumstances.

Response – We will consider this.

Conclusion – Response acknowledged. The Utilities could segregate duties to the extent possible with existing personnel and utilize administrative personnel to provide additional control through review of financial transactions and reports.

MT. PLEASANT MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF
MT. PLEASANT, IOWA

Schedule of Findings (Continued)
Year Ended June 30, 2004

Part III: Other Findings Related to Statutory Reporting:

III-A-04 Official Depositories – The Municipal Utilities' official depository banks are:

<u>Deposit</u>	<u>Amount</u>
Henry County Bank Mt. Pleasant, Iowa	\$ 6,000,000.00
U.S. Bank Mt. Pleasant, Iowa	6,000,000.00
First Federal Savings Bank Burlington, Iowa	1,000,000.00

A resolution naming official depositories has been adopted by the Utilities' Board of Trustees. The maximum deposit amounts stated in the resolution were not exceeded during the year June 30, 2004.

III-B-04 Certified Budget – Municipal Utilities' budget is filed as part of the City of Mt. Pleasant's budget. Expenditures for the year ended June 30, 2004 exceeded the amounts budgeted. Chapter 384.20 of the Code of Iowa states in part that public monies may not be expended or encumbered except under an annual or continuing appropriation. The budget was amended, however, it was not amended by May 31st as required by Chapter 331.435 of the Code of Iowa.

Recommendation – The budget should be amended by May 31st, in accordance with Chapter 331.435 of the Code of Iowa. The budget should have been amended in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response – The Budget will be amended, if applicable, by May 31st in the future.

Conclusion – Response accepted.

III-C-04 Questionable Disbursements – We noted no disbursements that were questionable costs.

III-D-04 Travel Expense – No expenditures of Municipal Utilities' money for travel expenses of spouses of Municipal Utilities' officials or employees were noted.

(continued)

MT. PLEASANT MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF
MT. PLEASANT, IOWA

Schedule of Findings (Continued)
Year Ended June 30, 2004

Part III: Other Findings Related to Statutory Reporting (Continued):

III-E-04 Business Transactions – Business transactions between the Utility and Utility employees are detailed as follows:

<u>Name, Title and Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u>
Codeworks Software Factory owner Matt Gingerich, stepson of employee	Computer programming and maintenance	\$ 2,363
Stull Electric, owned by director	House service	250
Jerry Glanzman, spouse of employee	Computer consulting	315
Donna Stott, spouse of employee	Cookies and baked goods	94

In accordance with Chapter 331.342 of the Code of Iowa, the transactions with Stull Electric, Jerry Glanzman, and Donna Stott do not appear to represent a conflict of interest since the total for each was less than \$1,500 during the fiscal year. The transactions with Codeworks Software Factory may represent a conflict of interest as defined in Chapter 331.342 of the Code of Iowa.

Recommendation – The Utilities should consult legal council to determine the disposition of this matter.

Response – We will consult legal council.

Conclusion – Response accepted.

III-F-04 Bond Coverage – Surety bond coverage of Municipal Utilities' officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

III-G-04 Utility Council Minutes – No transactions were found that we believe should have been approved in the Council minutes.

III-H-04 Revenue Notes – We noted no instances of non-compliance with water or electric note provisions.

III-I-04 Deposits and Investments – No instances of non-compliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the Utilities investment policy were noted.

MT. PLEASANT MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF
MT. PLEASANT, IOWA

Staff

This audit was performed by:

Tom L. Holtkamp, CPA, Manager
Kerry Voelker, CPA, Assistant Auditor